

VZCZCXYZ0005
RR RUEHWEB

DE RUEHBU #1263/01 2541913
ZNR UUUUU ZZH
R 101913Z SEP 08
FM AMEMBASSY BUENOS AIRES
TO RUEHC/SECSTATE WASHDC 1989
INFO RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEHRC/DEPT OF AGRICULTURE WASHINGTON DC
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
RHMFIUU/HQ USSOUTHCOM MIAMI FL
RUCNMER/MERCOSUR COLLECTIVE
RUEAIIA/CIA WASHINGTON DC
RHEHNSC/NSC WASHINGTON DC
RUEKJCS/SECDEF WASHINGTON DC
RUEHFR/AMEMBASSY PARIS 1447

UNCLAS BUENOS AIRES 001263

PARIS FOR USOECD

SIPDIS
SENSITIVE

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [ETRD](#) [EINV](#) [OPIC](#) [EXIM](#) [BEXP](#) [AR](#)

SUBJECT: Argentina: Seizing the Bilateral Opportunity - Building on
GoA's Paris Club Repayment Pledge

Summary

¶1. (SBU) The GoA's surprise September 2 announcement that it will soon pay all Paris Club debt, which would include fully clearing some \$402 million in arrears to the USG, opens the door to Argentina's normalization with official USG credit agencies. Once arrears to the USG are reconciled and cleared, our Eximbank, OPIC and USTDA will be free to consider re-engaging in Argentina to support U.S. exporters and investors by offering new sovereign credits or facilitating programs that will help expand bilateral commerce. Similarly, the U.S. military will be once again able to consider offering Foreign Military Financing, Excess Defense Articles, and Global Peacekeeping Operations Initiative programs. The USG should move quickly to capitalize on the trade and investment opportunities that this opening offers -- our European and Japanese counterparts are certain to be doing the same. Post recognizes that any decision to re-enter the Argentine market will be made individually by USG agencies, and we stand ready to provide any and all information requested. End Summary.

Paris Club Arrears Constrain USG Credits, Programs

¶2. (SBU) President Kirchner's surprise September 2 announcement that Argentina will repay the nation's debt to Paris Club creditors represents an important step in Argentina's normalization from the financial and economic trauma of the 2001/2 economic crisis. GoA officials have told us they intend to reconcile arrears with the Paris Club Secretariat and finalize payments to sovereign creditors by calendar year-end 2008. Once Argentine arrears to the USG - currently estimated at \$402 million -- are cleared, USG "Brooke" and "620Q" sanctions will be lifted. (Brooke sanctions are triggered by being in arrears for more than 12 months on USG loans funded through the Foreign Operations Appropriations Act, while 620Q sanctions are triggered when the debtor is in arrears for more than 6 months on a loan funded through the Foreign Assistance Act.)

¶3. (SBU) These sanctions, along with specific U.S. official credit agency charter restrictions against lending into arrears, currently prevent USG's Eximbank, OPIC and USTDA from supporting U.S. exporters and investors by offering new sovereign credits or otherwise facilitating programs that will help expand bilateral commerce. These sanctions have also prevented the U.S. military from offering Foreign Military Financing (FMF), Excess Defense Articles through 505 Drawdown authority, and have limited use of

Global Peacekeeping Operations Initiative funding. Once Paris Club arrears are paid down, U.S. credit agencies can re-assess their interest in re-initiating activities in Argentina.

Jump Starting Paris Club Debt Reconciliation

14. (SBU) As of the last (April 2008) Paris Club Secretariat review, the total stock of Argentine debt outstanding to Paris Club creditors -- including arrears, late interest, and future principal payments -- totaled \$7.92 billion, of which \$5.36 billion was in arrears and \$1.22 billion was late interest. Of this amount, the total stock of Argentine debt outstanding to the USG totaled \$425.4 million, of which \$401.9 million was in arrears, including late interest. Of the \$425.4 million owed to the USG, the total stock of debt outstanding to the U.S. Eximbank is \$389.1 million, of which \$368.1 is in arrears, including late interest. The total stock of debt outstanding to USAID is \$36.2 million, of which all but \$2.5 million is in arrears. While formal reconciliation of these credits and arrears will be conducted through the Paris Club Secretariat, we could assist the process by providing the GoA's Economy Ministry Secretariat of Finance a detailed breakdown of credits along with accompanying documentation.

Eximbank: Engine for U.S. Export Generation

15. (SBU) The GoA has made clear that one of the reasons it has decided to pay down Paris Club arrears was to regain access to export credit agency longer term financing to support needed

domestic infrastructure project development. Had the GoA decided to negotiate a gradual pay-down of arrears, U.S. exporters would have been placed at a competitive disadvantage versus their European and Japanese competitors. While the U.S. Eximbank charter requires that all/all arrears on Eximbank credits be cleared before the Bank can consider going back "on cover" for sovereign exposure, it is unclear whether other nations export credit agencies (France's COFACE, Germany's Hermes, Britain's ECGD, etc.) are similarly constrained.

16. (SBU) In 2007, U.S. goods exports to Argentina totaled \$5.3 billion, of which the single largest category comprised equipment and intermediate capital goods, the type that can benefit from Eximbank financing. A scarcity of foreign direct investment in the development of Argentina's primary infrastructure - in part due to investment climate concerns and in part due to the lack of competitive long-term financing - has led the GoA to take on significant new infrastructure development, including the development of new electricity generation plants, on its own. There are significant opportunities for U.S. exporters at hand: for example, General Electric's local management tells us that company electricity turbine, diesel locomotive, and medical equipment sales to the GoA would all be supported by renewed access to export credit agency financing.

OPIC: Strong GoA Interest

17. (SBU) New OPIC exposure in both insurance and financing has been limited by 620Q sanctions under the Foreign Assistance Act. The GoA has expressed strong interest in exploring a range of OPIC programs. The GoA's investment promotion agency, PROSPER-AR, has been working with both the World Bank and Inter-American Development Bank to promote local venture capital fund development. Both PROSPER-AR and the state-owned Banco de la Provincia de Buenos Aires, the nation's oldest bank, have expressed interest in tapping OPIC venture capital fund expertise and financing. For its part, the GoA's Planning Ministry is eager to access OPIC expertise and financing to promote the development of low and middle income housing projects, particularly in the nation's interior. The Planning Ministry's Secretariat of Energy has expressed interest in exploring OPIC's Clean Energy Initiative to encourage and support projects that incorporate energy efficiency and clean technologies. A number of the almost 500 U.S. companies working in Argentina have expressed interest in exploring OPIC long-term risk insurance programs.

USTDA: Promoting U.S. Technology and Standards

¶18. (SBU) The U.S. Trade and Development Agency (USTDA) advances economic development and U.S. commercial interests in developing and middle-income countries by funding technical assistance, feasibility studies, training, orientation visits, and business workshops that support the development of a modern infrastructure and a fair and open trading environment. Since the agency's creation in 1981, USTDA investments in Latin America and the Caribbean have produced over \$6.1 billion in U.S. exports. USTDA's re-engagement in Argentina would help enhance U.S. Embassy -- and particularly Foreign Commercial Service -- efforts to stimulate U.S. exports. In the past, USTDA has been an effective tool to promote the adoption of U.S. technology and standards for major Argentine infrastructure projects among Argentine government and industry decision-makers.

U.S. Military: Tool to Broaden Engagement

¶19. (SBU) While a limited Brooke sanctions waiver has permitted the Department of Defense to continue offering Argentina IMET training, it has effectively stopped major purchases supported by Foreign Military Financing, transfer of excess defense articles through Sec. 505 drawdown authority, and material purchases offered through the Global Peacekeeping Operations Initiative (GPOI). The Military Group in Buenos Aires (the Embassy's security cooperation office) has started to engage with Argentine Ministry of Defense and service personnel about potential expanded engagement opportunities that full relief from these sanctions makes possible. Some examples of broadened engagement could include the provision of either new material purchases or transfer of excess defense articles to satisfy

standing Argentine military requirements for additional rotary and fixed-wing aircraft, tracked and wheeled vehicles, and command and control equipment along with spare and sustainment parts for U.S. origin equipment currently in their inventory. Additionally, the availability of GPOI funding for material will offer the possibility to procure sorely needed command and control equipment for the combined Argentine/Chilean peacekeeping unit "Cruz del Sur."

Comment: Seizing the Initiative

¶10. (SBU) The USG should move quickly to capitalize on trade and investment opportunities that the GoA's welcome decision to pay down Paris Club debt offers. We can begin preparations now while work is ongoing to implement the GoA's decision to pay. Our European and Japanese counterparts are certain to do the same. We recognize that any decision to re-enter the Argentine market will be made individually by USG agencies based upon standard USG risk assessment criteria. Post stands ready to help research and provide any and all information requested by these agencies.

¶11. (SBU) For our part, Post will poll American Chamber of Commerce members here on their historical use of U.S. export credit agency programs and their specific interests in new credits, programs, and products. Initial steps Washington credit agencies may want to consider include reaching out to the senior GoA delegation (including Planning Minister De Vido) who will accompany President Kirchner to meetings in late September with U.S. business representatives in New York (on the margins of the UN General Assembly) at the Council of the Americas and at the Business Council for International Understanding. The opportunity for USG credit agencies to re-engage with Argentina is compelling and speaks to our interest in supporting the U.S. private sector and in deepening our already strong bilateral ties.

WAYNE